



COUNTY OF PLACER

OFFICE OF AUDITOR-CONTROLLER

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ACCOUNTANT'S REVIEW REPORT

Placer County Auditor-Controller's Office
General Accounting Division
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In accordance with the Internal Audit Plan continuous annual compliance monitoring, we have completed a monitoring review of Countywide Supplier Invoice Transactions less than \$1,000 for the period of July 1, 2018 to June 30, 2019. This is a recurring monitoring review that was added to the Auditor-Controller's Office's Internal Audit Plan upon the implementation of Workday on July 1, 2018.

The objectives were to review supplier invoice transactions less than \$1,000 for compliance with County policies and evaluate the administration of the supplier invoices for adequate internal controls.

The monitoring review was conducted for all County departments and the review identified 11 observations over department administration as outlined in this report.

Nicole C. Howard, CPA
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November 19, 2020

cc: Brett Wood, Purchasing Manager, Procurement Division, County Executive Office

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INTRODUCTION

In accordance with the Internal Audit Plan continuous annual compliance monitoring, we have completed a monitoring review of Countywide Supplier Invoice Transactions less than \$1,000 for the period of July 1, 2018 to June 30, 2019.

BACKGROUND

The County processes supplier invoice transactions through the Workday accounting system to pay approved vendors that conduct business with the County. Per the County's policies, all supplier invoice transactions that exceed \$1,000 must be processed through and approved by the Auditor-Controller's Office before payment. However, supplier invoice transactions less than \$1,000 are processed at the Department level and bypass Auditor-Controller approval before payment.

Processing a supplier invoice transaction is a two-step process which includes (1) the initiator who creates the supplier invoice and (2) the program manager who is responsible for reviewing the supplier invoice and supporting documentation before approving the supplier invoice payment.

Workday outlines the roles and responsibilities of all related personnel involved in the review and approval of supplier invoices. These are shown in Table 1 below.

Table 1: Roles and Responsibility of Supplier Invoice Authorizations

Roles	Responsibilities
Initiator	<ul style="list-style-type: none">• Person who creates accounts payable transactions at the dept. Supplier invoices etc.
Program Manager (Approver)	<ul style="list-style-type: none">• Primary manager for assigned programs. Access to program spend analytics. Approval authority for financial business processes.

SUMMARY

During the monitoring review, we reviewed a total of 312 out of 42,145 supplier invoice transactions for the period of July 1, 2018 – June 30, 2019. Of the sampled transactions, 59 transactions were noted with exceptions. The transactions we reviewed consisted of supplier invoice transactions from the following County departments.

- Agriculture Department
- Assessor's Office
- Auditor-Controller's Office
- Clerk-Recorder-Elections Office
- County Counsel
- Community Development Resource Agency
- County Executive Office
- Department of Child Support Services
- Department of Facilities Management

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- Department of Health and Human Services
- Department of Information Technology
- Department of Public Works
- District Attorney's Office
- Human Resources Department
- Library
- Local Agency Formation Commission
- Probation Department
- Sheriff's Office
- Treasurer Tax-Collector's Office

REVIEW OBJECTIVES

The objectives of the monitoring review were to determine whether:

- a) adequate internal controls exist and are working as intended to provide reasonable assurance that supplier invoice transactions are initiated and approved appropriately; and
- b) supplier invoices that do not require approval through the Auditor-Controller's Office are following the County's current policies and procedures for supplier invoices.

To accomplish our objectives, we performed the following:

1. Reviewed various County policies and procedures to understand all relevant policies and guidelines related to supplier invoice transactions:
 - a) Accounting Policies and Procedures Manual
 - b) Procurement Policy and Procurement Procedures Manual
 - c) Purchasing Handbook for Departments
2. Reviewed supplier invoice transactions to ensure purchases were authorized and appropriately used for County business.
3. Reviewed supplier invoice transaction documentation files to ensure compliance with current policies, procedures, and adequate documentation controls.
4. Interviewed departmental personnel involved in the administration and management of the program.

AUTHORITY

Placer County Internal Audit Division Charter provided authority for the Internal Audit Division to allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives. Also, Internal Audit staff have unrestricted access to all functions, records, property, and personnel.

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OBSERVATIONS

1. Missing Date Stamp/Signature Upon Receipt

The "Invoice Received Date" field on the Supplier Invoice detail and/or the supporting invoice did not have a date stamp or signature indicating the department received the goods and services purchased.

The Accounting Policies and Procedures Manual - General Payment Guidelines and Requirement section states, "Departments should ensure that all invoices are date stamped and the commodities and services listed on the invoice have been received."

Example: The original invoice did not have a date stamp documenting when the department received the invoice and the department did not include the invoice received date electronically in Workday.

2. Invoice Not Paid Timely

Invoice was not paid within 45 days of when the invoice was received by the department.

The Procurement Policy, section 2.0 Responsibilities states, "County Departments are responsible for assuring receipt and payment for goods and services are documented and paid in a manner consistent with the approved contract and within the applicable prompt payment discount timeframes."

Example: A department received a supplier invoice on 2/11/2019, however the supplier invoice was not paid until 6/10/2019.

3. Supplier Invoice was approved without Adequate Documentation

The Program Manager approved a supplier invoice that did not have an invoice, receipt, or other supporting documentation on file to verify the goods or services purchased were reasonable and allowable per County policies and procedures.

The Accounting Policies and Procedures Manual - General Payment Guidelines section states, "Payments shall be made for requests accompanied by original vendor invoices..."

The Accounting Policies and Procedures Manual - Delegated Purchases section states, "The original invoice, which details the charges when billed, is the only document that can be used to process the payment."

The Accounting Policies and Procedures Manual states, "Expenditures for goods and services must be reasonable and necessary. Reasonable purchases are those for basic goods and services obtained at the lowest possible price."

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Example: A department did not upload any required documentation, such as the original invoice, to support the amount to be paid.

4. Same Initiator and Approver(s)

The supplier invoice was initiated and approved by the same County employee.

Best practices recommend separation of duties for individuals in a department responsible for approving purchases, receiving ordered items, making payments and handling reconciliations for supplier invoices.

Example: A supplier invoice was initiated by a County employee and was subsequently approved by the same County employee "on behalf of" a different employee.

5. No Supplier Tax Identification Number in Workday

A supplier invoice was paid for a supplier that did not have a Tax Identification Number on file in Workday.

The Accounting Policies and Procedures Manual - General Payment Guidelines and Requirements section states, "In order for a payment to be processed, the payee's federal Tax Identification Number (TIN) should be on file..."

Example: A Supplier did not have the required Tax Identification Number listed in Workday to process a payment of the supplier invoice.

6. Circumventing - Multiple Invoices from Supplier

The department purchased the same goods or services from a supplier on the same or consecutive days that, in total, exceeded the \$1,000 limit at which time an approval through the Auditor-Controller's Office would be required.

The County's Purchasing Handbook for Departments – Delegated Purchasing section 3.3 states, "Departments shall not circumvent normal procurement methods, including the use of blanket purchase orders, by splitting purchases into a series of direct vouchers."

Example: A department paid three supplier invoices for three consecutive invoices for the same product with same vendor for a combined total amount of \$1,580.66.

7. Circumventing Supplier Invoice

The department split an invoice payment into two separate supplier invoices in which the total exceeded \$1,000, thereby bypassing the Auditor-Controller's Office review and approval process.

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The County's Purchasing Handbook for Departments – Delegated Purchasing section 3.3 states, "Departments shall not circumvent normal procurement methods, including the use of blanket purchase orders, by splitting purchases into a series of direct vouchers."

Example: A department split an invoice for a total of \$1,241.97, into two supplier invoices that were paid separately. One supplier invoice was in the amount of \$677.95 while the second supplier invoice was in the amount of \$515.00. Both supplier invoices referenced the same original invoice and invoice number.

8. Incorrect Sales Tax

Sales tax was incorrectly charged by the vendor and the department did not enter a tax adjustment into Workday for the correct sales tax amount.

The Accounting Policies and Procedures Manual - Sales and Use Tax section states, "Sales tax is applied according to the rate in effect at the point at which the goods are received and used. For goods purchased for the use in Placer County, the sales tax rate is available through the California City and County Sales and Use Tax Rates - California Department of Tax and Fee Administration."

The Accounting Policies and Procedures Manual - Delegated Purchasing section states, "The department must ensure that the invoiced amounts are properly added and that sales and use taxes, if any, are properly calculated and applied."

Example: A vendor incorrectly charged the sales tax and the department did not recalculate the sales tax to determine whether a tax adjustment was required.

9. Amount Paid does not Agree to Support

A supplier invoice was approved but the amount paid did not agree to the supporting invoice.

The Accounting Policies and Principles Manual - General Payment Guidelines and Requirements section states, "Invoice amounts should not be altered. If an amount needs to be adjusted or corrected, a new invoice should be obtained from the vendor."

Example: A supplier invoice was paid in the amount of \$684.13, however the supporting invoice shows the total amount due was \$340.68.

10. Supplier's Accumulated Invoice Total for FY18-19 Exceeds \$4,000 Threshold

The supplier did not have an approved contract or purchase order in Workday, but the supplier's accumulated supplier invoice total for the fiscal year 2018-19 exceeded \$4,000.

Section 3.2 of the County Procurement Policy states, "The delegation of authority to make small purchases is not intended to be a substitution for centralized purchasing, or to be used to engage in repetitive purchasing without adequate analysis and competition."

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Example: Suppliers do not have an approved contract or purchase order in Workday for reoccurring purchases, but their total accumulated invoices for the fiscal year 2018-19 exceeded \$4,000.

11. Lack of Approval for a Retention Release at the Department Level

Supplier invoices for retention releases were initiated and processed through Workday without approval at the department level in the Workday business process. Specifically, there was no program manager approval required in Workday.

Best practices recommend providing support of the department level approval for any release of retention prior to the payment of the retention.

Example: A supplier invoice for retention release was paid without obtaining the program manager's approval at the department level in the Workday business process.